

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**MARC SPITZER - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES**

IN THE MATTER OF QWEST CORPORATION'S)	DOCKET NO.
FILING OF RENEWED PRICE REGULATION PLAN)	T-01051B-03-0454
IN THE MATTER OF THE INVESTIGATION OF THE)	DOCKET NO.
COST OF TELECOMMUNICATIONS ACCESS)	T-00000D-00-0672
)	
)	

DIRECT TESTIMONY

OF

THOMAS REGAN

ON BEHALF OF

THE STAFF OF THE ARIZONA CORPORATION COMMISSION

NOVEMBER, 2004

**NOTICE: THE PROPRIETARY INFORMATION HAS BEEN REDACTED FROM
THIS TESTIMONY.**

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I. STATEMENT OF QUALIFICATIONS AND INTRODUCTION

4 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

5 A. My name is Thomas M. Regan. My business address is 8625 Farmington
6 Cemetery Road, Pleasant Plains, Illinois, 62677.

7

8 Q. WHAT IS YOUR PRESENT OCCUPATION?

9 A. I am an Economist with the firm of William Dunkel and Associates. I have been
10 employed by William Dunkel and Associates since 1994. Since that time, I have
11 regularly provided consulting services in telephone regulatory proceedings
12 throughout the country.

13

14 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN ARIZONA?

15 A. Yes. I filed testimony on behalf of the Staff of the Arizona Corporation
16 Commission in the previous general rate case of Qwest in the State of Arizona,
17 Docket No. T-1051-99-105. My testimony in that proceeding discussed economic
18 principles that apply to the calculation of economic costs, and the role that those
19 costs have in telecommunications proceedings.

20

21 Q. HAVE YOU PREPARED AN APPENDIX THAT DESCRIBES YOUR
22 QUALIFICATIONS?

23 A. Yes. My qualifications are shown on Appendix A.

24

1 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS
2 PROCEEDING?

3 A. The purpose of my Direct Testimony in this proceeding is to discuss Qwest's
4 request to draw funds from the Arizona Universal Service Fund (AUSF) and
5 Qwest's proposed rate design in this proceeding.

6

7 Q. WILL YOU PLEASE SUMMARIZE YOUR DIRECT TESTIMONY?

8 A. Yes. My Direct testimony is summarized as follows:

9

10 **STAFF'S AUSF "CODE" ANALYSIS:**

11

12

13 Qwest's benchmark rates are well in excess of the TSLRICs of basic local
14 service. Therefore, Qwest would not receive any AUSF funding following
15 the requirements of the Code.

16

17 Qwest's proposed AUSF analysis calculates a large amount of claimed AUSF
18 support need, due primarily to the fact that Qwest's analysis does not use the
19 properly calculated TSLRIC of basic local exchange telephone service. Qwest's
20 claimed basic local TSLRIC has two major problems:(1) The Administrative
21 Code states:

22 **R14-2-1201(14)** "Total Service Long Run Incremental Cost" is
23 the total additional cost incurred by a telecommunications
24 company to produce the entire quantity of a service, **given that the**
25 **telecommunications company already provides all of its other**
26 **services.**

27

1 Qwest would already be incurring the costs of the loops and ports if Qwest
2 was "already" providing toll, access and vertical services, so those costs
3 are not "additional" costs of basic local exchange service. However Qwest
4 improperly included 100% of these loop and port costs in its claimed basic
5 local TSLRIC.

6
7 (2) An additional problem is Qwest has improperly added Network
8 Support costs and common overhead costs to the claimed "TSLRIC" of
9 basic local service, despite the fact that the Code requires the cost to be the
10 TSLRIC only.

11
12 **STAFF'S SECOND, OR "OVERALL ANALYSIS" FOR AUSF**

13 Qwest is not entitled to any AUSF under the Code requirements.
14 However, as a further check to see if Qwest has any reasonable basis for
15 asking for support in certain geographic areas, I also performed a "second
16 analysis", which I refer to as the "overall analysis" of Qwest's intrastate
17 services and intrastate costs. I have performed this additional analysis that
18 compares Qwest's total intrastate revenues to Qwest's total intrastate costs
19 (including the intrastate costs of the loop and port facilities, which are
20 shared by Qwest's major services). Since the "overall analysis" I
21 performed includes all of the intrastate loop costs in the calculation, the
22 "overall analysis" also includes all of the revenues from all of the
23 intrastate services that share the loop facility.

1
2 Qwest has asked for support in certain Zone 2 and Zone 3 areas. Even the "overall
3 analysis" indicates that Qwest does not need support to cover its intrastate costs in
4 Zone 2 and Zone 3. **

5 ** in Zones 2 and 3. For these reasons, I
6 recommend that Qwest's request for AUSF funding be denied.

7
8 **RATE DESIGN**

9 For the ** ** intrastate switched access rate elements,
10 Qwest's rates in Arizona are approximately 28% higher than the average rates of
11 Qwest across its 14 state service territory. Qwest's current intrastate switched
12 access charges are approximately ** ** higher than the interstate switched
13 access rates (when the interstate EUCL charges are included in the calculation of
14 the interstate switched access rates). I recommend that Qwest's intrastate
15 switched access rates be reduced by 25%. This reduction will effectively bring
16 Qwest to "parity" with the Qwest interstate switched access rates (when the
17 interstate EUCL charges are factored into the calculation of the interstate
18 switched access rates), and will bring the Arizona intrastate switched access rates
19 in line with the average intrastate switched access charges of Qwest across its 14
20 state service territory.

21
22 I oppose Mr. Teitzel's proposal to eliminate the exchange zone increment 1 and 2
23 rates. The purpose of the zone increment charges is to recover costs for serving

1 areas that have higher than average costs. The current Zone increment charges
2 are properly serving the purpose of defraying at least part of the costs in high cost
3 areas.

4
5 I oppose Qwest's proposal to eliminate the current one free call allowance for
6 Directory Assistance. Qwest has not provided any compelling support for its
7 proposal to eliminate the one free call allowance. In addition, *even* Qwest's
8 proposed "Fully Allocated TSLRIC" of Local Directory Assistance is

9 ** ** per call, whereas the average revenue per local DA call (including
10 free call allowance calls) is ** ** per call. With the current one free call
11 allowance, the current DA rates provide a contribution of over ** ** above
12 Qwest's proposed "Fully Allocated TSLRIC" cost.

13
14 I do not oppose Qwest's proposal to eliminate several service packages and
15 custom calling packages that include 2,3,4 or 5 custom calling features. The
16 annual revenue impact of these proposals is an increase of \$785,315.

17
18 I do not oppose Qwest's proposed changes for Call Management/Centron 1
19 packages, or Qwest's proposed pricing changes for Centron 6 and Centron 30
20 packages. The annual revenue impact of these proposals is an increase of
21 \$127,335.

1 I do not oppose Qwest's proposed changes for private line services. The annual
2 revenue impact of these proposals is an increase of \$748,000.

3
4 I do not oppose Qwest's proposed changes for 800 Database service. The annual
5 revenue impact of these proposals is an increase of \$46,000.

6
7 The overall annual revenue impact of the rate changes I have proposed in this
8 testimony (including the rate changes proposed by Qwest, which I do not oppose),
9 is (\$7,228,420).

10
11
12 **II. THE ARIZONA UNIVERSAL SERVICE FUND (AUSF)**

13
14
15 **A. THE AUSF UNDER THE ARIZONA ADMINISTRATIVE CODE**

16
17
18 **Q. HOW ARE AUSF SUPPORT AMOUNTS TO BE CALCULATED UNDER**
19 **THE ARIZONA ADMINISTRATIVE CODE?**

20 **A.** The Arizona Administrative Code states that AUSF support shall be based upon
21 the difference between the "benchmark rates for basic local service" and "the
22 appropriate cost to provide basic local exchange service as determined by the
23 Commission", less any federal USF support. The Code specifically states:

24 **R14-2-1202. Calculation of AUSF Support**

- 25 a. The amount of AUSF support to which a provider of basic local
26 exchange telephone service is eligible for a given AUSF support
27 area shall be based upon the difference between the benchmark
28 rates for basic local exchange telephone service provided by the
29 carrier, and the appropriate cost to provide basic local exchange

1 telephone service as determined by the Commission, net of any
2 universal service support from federal sources.
3
4

5 Q. WHAT MEASURE OF COST DOES THE ARIZONA ADMINISTRATIVE
6 CODE REQUIRE BE USED TO DETERMINE "THE APPROPRIATE COST
7 TO PROVIDE LOCAL EXCHANGE TELEPHONE SERVICE"?

8 A. For "large local exchange carriers" (i.e. incumbent providers of basic local
9 exchange telephone service serving 200,000 or more access lines in Arizona¹) like
10 Qwest, the Code requires that "Total Service Long Run Incremental Cost" be used
11 as the appropriate cost standard when determining "the appropriate cost of
12 providing basic local exchange telephone service for purposes of determining
13 AUSF support".² The Code specifically states that for a large exchange carrier...
14 the appropriate cost of providing basic local exchange telephone service
15 for purposes of determining AUSF support shall be the Total Service Long
16 Run Incremental Cost.³
17

18 Q. DOES THE ADMINISTRATIVE CODE DEFINE "TOTAL SERVICE LONG
19 RUN INCREMENTAL COST"?

20 A. Yes. The Administrative Code states:

21 **R14-2-1201(14)** "Total Service Long Run Incremental Cost" is the total
22 additional cost incurred by a telecommunications company to produce the
23 entire quantity of a service, **given that the telecommunications company**
24 **already provides all of its other services.** Total Service Long Run
25 Incremental Cost is based on the least cost, most efficient technology that
26 is capable of being implemented at the time the decision to provide the
27 service is made. (emphasis added)
28
29

¹ AAC Section R14-2-1201(12).

² AAC Section R14-2-1202(D).

³ AAC Section R14-2-1202(D).

1 Q. THE CODE'S DEFINITION OF TOTAL SERVICE LONG-RUN
2 INCREMENTAL COST (TSLRIC) INDICATES THAT TSLRIC IS THE
3 ADDITIONAL COST TO PROVIDE THE SERVICE "GIVEN THAT THE
4 TELECOMMUNICATIONS COMPANY ALREADY PROVIDES ALL OF ITS
5 OTHER SERVICES." WHAT OTHER SERVICES DOES QWEST PROVIDE
6 BESIDES BASIC LOCAL EXCHANGE TELEPHONE SERVICES?

7 A. In addition to providing basic local exchange services, Qwest also provides
8 intraLATA toll services, intrastate switched access services, interstate switched
9 access services, vertical services (e.g. Caller I.D., Call Waiting, etc.), and other
10 services.

11
12 Q. WHAT FACILITIES DOES QWEST NEED TO PROVIDE THESE OTHER
13 SERVICES?

14 A. In order to provide these other services, Qwest needs a number of facilities,
15 including loop and port facilities. If Qwest "already provides" toll, switched
16 access and vertical services, Qwest would already have incurred the loop facility
17 and port facility costs. Therefore, loop and ports are not "additional costs"
18 incurred to provide basic local exchange service. Therefore, the loop and port
19 costs are not part of the basic local service TSLRIC.

20

⁴In this testimony the reference to the loop is to the switched loop or common line. That is the switched loop that is used for services including local, toll, etc. The reference to the loop is not to the private line loop that is a dedicated service (such as a burglar alarm line).

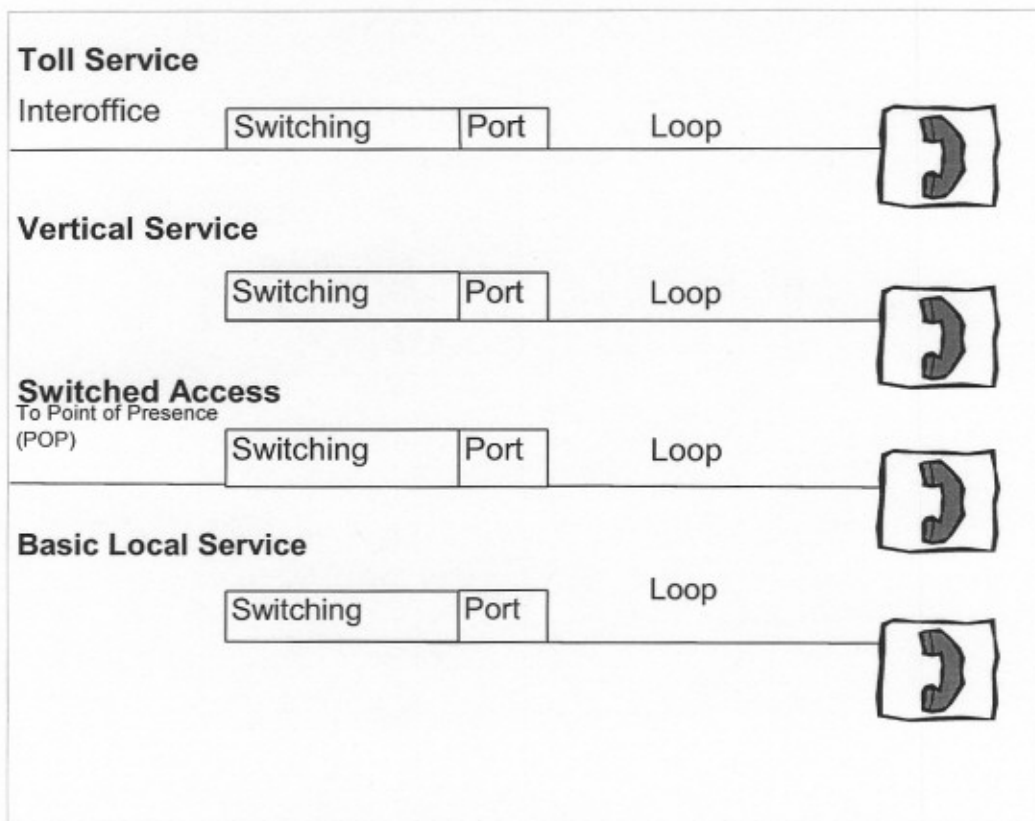
⁵Qwest-Arizona 2003 ARMIS Report 43-04, Loop Circuit Equipment investment; (\$776,179,000 (line 1275) + \$2,070,789,000 Loop Cable and Wire investment (line 1455) divided by \$4,741,883,000 Total Telecommunications Plant In Service (Line 2194) = 60%.

1 Q. CAN YOU GRAPHICALLY DEMONSTRATE THE FACT THAT THE LOOP
2 AND PORT WOULD BE NEEDED ALREADY "GIVEN THAT THE
3 TELECOMMUNICATIONS COMPANY ALREADY PROVIDES ALL OF ITS
4 OTHER SERVICES"?

5 A. Yes. Shown below are the facilities that are needed to provide various major
6 services:

7 **FACILITIES NEEDED TO PROVIDE**

8 **THE MAJOR TELECOMMUNICATIONS SERVICES**



9
10

⁶¶58, Notice of Proposed Rulemaking, Third Report and Order, and Notice of Inquiry, CC Docket No. 96-262, FCC 96-488. Examples of the use of the term "common line" include the FCC End User Common Line (EUCL) charge, which is a charge to end users to recover a portion of the common line costs.

1 A copy of the above diagram is also attached hereto as Schedule TMR-1. The
2 loop facility is needed to provide any or all of the above services. For example, if
3 a company "already provides all of its other services" (toll, vertical services,
4 switched access services), the loop facility would be needed, even if basic
5 exchange service was not provided.⁷

6
7 A company providing all of the above services except for basic local exchange
8 service would have loops and ports. Loops and ports are not "additional costs"
9 incurred by providing basic local exchange service, and are therefore not included
10 in the TSLRIC of basic local exchange service.

11
12 Q. HAS THE FCC SPECIFICALLY INDICATED THAT THE LOOP FACILITIES
13 ARE REQUIRED TO ORIGINATE AND TERMINATE LONG DISTANCE
14 CALLS?

15 A. Yes. The FCC found that all of the loop facilities are required to originate and
16 terminate long distance calls. The FCC specifically stated:

17 A telecommunications carrier will typically provide these services,
18 together with numerous other telecommunications service, over a single
19 network because the total cost of providing these services on shared
20 facilities, under shared management, is less than the combined cost of
21 providing these services on separate facilities particularly under separate
22 management operations. A substantial portion of these costs of shared
23 facilities and operations are joint and common costs; it is difficult, if not
24 impossible to approximate the actual portion of such costs for which each
25 product or service is responsible. For these types of costs, considerations
26 other than cost causation must prevail in determining how the costs should
27 be allocated among various services.⁸

⁷ Vertical services include services such as Call Forwarding, Call Waiting, Caller ID, etc.
Implementation of §254(k) of the Communications Act of 1934, as amended, Order adopted and released
May 8, 1998, Paragraph 8.

1
2 And,

3
4 These costs pose particularly difficult problems for the separations
5 process: The costs of such facilities cannot be allocated on the
6 basis of cost-causation principles because **all of the facilities**
7 **would be required even if they were used only to provide local**
8 **service or only to provide interstate access services. A**
9 **significant illustration of this problem is allocating the cost of**
10 **the local loop**, which is needed both to provide local telephone
11 service as well as to originate and terminal long-distance calls.
12 The current separations rules allocate 25 percent of the cost of the
13 local loop to the interstate jurisdiction for recovery through
14 interstate charges.⁹ (emphasis added)
15
16

17 Q. HAS QWEST PREVIOUSLY ACKNOWLEDGED THE FACT THAT
18 THE LOOP FACILITIES ARE REQUIRED TO PROVIDE MANY OF
19 THE TELEPHONE SERVICES THAT QWEST PROVIDES?

20 A. Yes. In the last rate case of Qwest in Arizona, a witness testifying on
21 behalf of Qwest stated:

22 There is no denying the fact that the local loop is required within a
23 wireline network to deliver *any* wireline service.¹⁰ (emphasis in
24 original)
25
26

27 Obviously, if it is to be assumed that "the telecommunications company
28 already provides all of its other services", as required by the Code's
29 definition of Total Service Long Run Incremental Cost (TSLRIC), Qwest
30 would already need to have loop facilities to deliver those services. Quite
31 simply, Qwest would be unable to provide its major "other services"

⁹ ¶23, *FCC Access Charge Reform Order*, FCC 97-158.

¹⁰ Arizona Docket No. T-01051B-99-0105, Rejoinder Testimony of Dr. William E. Taylor, page 21, lines 15-16.

1 without already having the loop facilities. Without loop facilities, Qwest
2 would be unable to deliver its major "other services" to its customers.

3
4
5 Q. WHAT ADDITIONAL COSTS WOULD BE INCURRED TO PROVIDE
6 BASIC LOCAL EXCHANGE TELEPHONE SERVICE, ASSUMING
7 THAT QWEST "ALREADY PROVIDES" ALL OF ITS OTHER
8 SERVICES?

9 A. The only additional costs that would be incurred to provide basic local
10 exchange telephone service (given that Qwest provided all of its other
11 services) would be the costs of local usage, and some other minor costs
12 (e.g. incremental billing and collection costs and directory listing costs).
13 These costs amount to approximately ** ** per line, per month for
14 residence and ** ** per line, per month for business. The calculation
15 of these costs is shown on Schedule TMR-2.

16
17 Since Qwest's other services such as toll, switched access, vertical services
18 and other services, require loop and port facilities, Qwest would incur the
19 costs of the loop and port facilities to provide those other services. Qwest
20 would not incur any additional loop and port facilities costs if basic local
21 exchange telephone service is also provided along with the family of
22 services provided using those loop and port facilities. Therefore, the costs
23 of the loop and port facilities are excluded in the proper calculation of the
24 TSLRIC of basic local exchange telephone service.

1

2 Q. YOU INDICATED THAT THE ARIZONA ADMINISTRATIVE CODE
3 STATES THAT AUSF SUPPORT FOR QWEST SHALL BE BASED
4 ON THE DIFFERENCE BETWEEN THE "BENCHMARK RATES FOR
5 BASIC LOCAL SERVICE" AND THE TSLRIC OF BASIC LOCAL
6 SERVICE.¹¹ DOES THE CODE DEFINE THE ""BENCHMARK
7 RATES FOR BASIC LOCAL SERVICE"?

8 A. Yes. The Code provides the following definition:

9 **R14-2-1201(7)** "Benchmark rates" for a telecommunications
10 services provider are those rates approved by the Commission for
11 that provider for basic local exchange telephone service, plus the
12 Customer Access Line Charge approved by the Federal
13 Communications Commission.
14

15

16 Q. WHAT ARE QWEST'S BENCHMARK RATES UNDER THE CODE?

A17 Qwest's residential basic local exchange telephone service (i.e. 1FR
18 service) rate is \$13.18, and the FCC residential Customer Access Line
19 Charge (CALC) is \$6.50.¹² Therefore Qwest's residential benchmark rate
20 is \$19.68. Qwest's business basic local exchange telephone rate (i.e.
21 1FB) is \$30.40, and the FCC business CALC is \$6.53.¹³ Therefore, the
22 business benchmark rate is \$36.93.

23

24 Q. WOULD QWEST RECEIVE ANY AUSF FUNDING FOLLOWING
25 THE CODE?

¹¹ Less any Federal USF Support.

¹² Million Direct Testimony Exhibit TKM-2.

¹³ Million Direct Testimony Exhibit TKM-2.

1 A. No. Under the Code, AUSF support for Qwest is based on the difference
2 between the benchmark rates for basic local service and the TSLRIC of
3 basic local service.

4
5 Qwest's benchmark rates are well in excess of the TSLRICs of basic local
6 service. This is shown below:

7		<u>Benchmark Rates</u>	<u>TSLRICs</u>	
8	Residence Basic Local Service	\$19.68	**	**
9	Business Basic Local Service	\$36.93	**	**

10

11 The calculation of the TSLRIC costs above is shown on Schedule TMR-2.

12

13 **B. QWEST'S PROPOSED "TSLRIC" OF BASIC**
14 **LOCAL SERVICE IS CRITICALLY FLAWED.**

15

16 Q. QWEST CLAIMS THAT IT SHOULD RECEIVE \$64.04 MILLION
17 ANNUALLY FROM THE AUSE.¹⁴ WHY DOES THE QWEST
18 ANALYSIS CALCULATE SUCH A LARGE AMOUNT OF CLAIMED
19 AUSF SUPPORT NEEDED?

20 A. The Qwest analysis calculates such a large amount of claimed AUSF
21 support need, due to the fact that Qwest's analysis does not use the
22 properly calculated TSLRIC of basic local exchange telephone service.
23 Qwest's claimed basic local TSLRIC has two major problems:

¹⁴ Million Direct Testimony, page 23, line 15.

1 (1) Qwest included the loop and port costs as being "additional" costs (part of the
2 TSLRIC) of basic local service. However they are not additional costs **"given**
3 **that the telecommunications company already provides all of its other**
4 **services."**

5
6 Qwest would already be incurring the costs of the loops and ports if Qwest
7 was "already" providing toll, access and vertical services, so those costs
8 are not "additional" costs of basic local exchange service. However Qwest
9 improperly included 100% of these loop and port costs in its claimed basic
10 local TSLRIC.

11 (2) An additional problem is Qwest has improperly added Network
12 Support costs and common overhead costs to the claimed "TSLRIC" of
13 basic local service, despite the fact that the Code requires the cost to be the
14 TSLRIC only.

15
16 Therefore, Qwest's proposal to include loop, port, shared and common
17 costs in the local basic service TSLRIC in the AUSF analysis is in direct
18 violation of the Code's definition of TSLRIC.

19
20 Q. ONE OF THE COSTS THAT QWEST INCLUDES IN ITS "FULLY
21 ALLOCATED COST" IS WHAT QWEST CALLS THE "DIRECT
22 COST". DOES QWEST CLAIM THAT ITS CLAIMED "DIRECT
23 COST" IS EQUIVALENT TO THE TSLRIC?

1 A. Yes. One of the cost components that Qwest includes in its proposed
2 "fully allocated cost" is what Qwest calls the "direct" cost. Qwest claims
3 that its proposed "direct cost" is equivalent to the TSLRIC. Qwest's
4 witness, Ms. Million, makes this fact clear beginning on page 9 of her

5 Direct testimony:

6 Studies are useful in determining whether the direct revenues
7 associated with a service will cover the direct forward-looking
8 costs associated with the service. That is, the Commission rules
9 require the revenues for a service or group of services to cover the
10 **direct costs (i.e., TSLRIC)** of the facilities, components or
11 capabilities used to provision the service or services. (emphasis
12 added)
13
14
15

16 **C. QWEST IMPROPERLY INCLUDES ALL OF THE LOOP**
17 **FACILITY AND PORT FACILITY COSTS IN WHAT QWEST**
18 **CALLS THE "TSLRIC" OF BASIC LOCAL SERVICE.**
19
20

21 Q. DOES QWEST'S PROPOSED TSLRIC OF BASIC LOCAL SERVICE
22 HAVE CRITICAL FLAWS?

23 A. Yes. Qwest's proposed "direct" cost (TSLRIC) includes 100% of the loop
24 facility costs, and includes 100% of the port facilities costs. The loop and
25 port facilities are facilities that Qwest must have to provide its other major
26 services. As shown on Schedule TMR-1, the loop and port facilities are
27 required to provide any of Qwest's major services. Without the loop and
28 port facilities, Qwest could not deliver toll calls to and from its customers.
29 Without the loop and port facilities, Qwest could not deliver vertical

1 features to its end-users. Without the loop and port facilities, Qwest could
2 not provide IXCs with switched access services. Therefore, all of the
3 costs of the loop and port facilities would have to be incurred in order for
4 Qwest to provide all of its other services. The loop and port facility costs
5 are examples of costs that are shared among the whole family of Qwest's
6 major services. Qwest would not incur any additional loop and port costs
7 to provide basic local exchange telephone service if Qwest was already
8 providing all of its other services. Therefore, the costs of the loop and port
9 facilities are not properly included in the TSLRIC. Qwest made a critical
10 violation of the Code's definition of TSLRIC when it included the full
11 costs of the loop and port facilities in its claimed "direct cost" (i.e.,
12 TSLRIC) of basic local service. Qwest's proposal to be granted AUSF
13 funding in this proceeding is based upon Qwest's violation of this
14 definition.

15
16 Q. DOES QWEST'S PROPOSAL TO INCLUDE 100% OF THE COSTS OF
17 THE LOOP IN ITS CLAIMED COST OF BASIC LOCAL EXCHANGE
18 SERVICE VIOLATE THE ORDERS OF THE COMMISSIONS IN
19 NUMEROUS STATES?

20 A. Yes. A number of states have found that the loop is a
21 shared/joint/common cost, and that it is not a cost of just basic local
22 exchange telephone service. Here are some examples:
23

1 The Indiana Utility and Regulatory Commission (IURC) specifically found that
2 assigning 100% of the loop cost to one service would violate Section 254(k) of
3 The Telecommunications Act of 1996. It found the loop is "included in the
4 definition of common and joint costs." The IURC found that,

5 For purposes of resolving 'takings' claims and 'a reasonable share of the
6 joint and common costs of facilities used to provide those services,' the
7 loop must, therefore, be included in the definition of common and joint
8 costs in order to determine confiscation claims and to be in compliance
9 with the second sentence of Section 254(k). We find that the direct
10 assignment of 100 percent of the loop costs to any one service would be a
11 violation of the second sentence of Section 254(k).¹⁵
12

13 In the State of Utah, the Commission specifically found fault with Qwest's
14 calculation of TSLRIC, because Qwest assigned all of the costs of the access line
15 (i.e. loop) to basic residential service:

16 We are troubled by the Company's failure to take into
17 account Commission past orders which deal with some of
18 the pivotal issues and assumptions which go into the
19 calculation of TSLRIC. One failure, in particular, is the
20 Company's decision to assign all costs of access lines to
21 basic residential service...The Commission has already
22 rejected the Company's premise that the only purpose of
23 access lines, the local loop, is for the customer to obtain a
24 dial tone or local service. Without the local loop, the end
25 user would not have access to switched access products or
26 use of toll services.¹⁶
27
28

¹⁵Indiana Utility Regulatory Commission Order, Cause No. 40785, Section V.(C) Common and Joint Costs, Issued October 28, 1998.

¹⁶US West Communications, Inc Docket No. 95-049-05, Report and Order, page 95 (Issued November 6, 1995).

1 Similarly, in the State of Iowa, the Utilities Board found that Qwest's (then U S
2 WEST) LRIC methodology was flawed due to the fact that Qwest assigned all of
3 the costs of the loop to local service:

4 Designating the access line as a separate service and allocating all of its
5 costs to the local service customer continues to be a major problem with U
6 S WEST's LRIC methodology.¹⁷
7

8 The Washington Utilities and Transportation Commission found:

9 Finally, the residential cost study contains a basic flaw:
10 USWC improperly allocates 100% of the local loop to
11 residential service, and 0% to services that rely and depend
12 on the use of that facility. The Commission in the past has
13 addressed this issue and found it appropriate to allocate a
14 portion of the loop costs to toll and other services.¹⁸
15

16 The Colorado Public Utilities Commission found:

17 The second argument defines the local loop as a system.
18 This system has many different users demanding service,
19 including residential customers; small, medium and large
20 businesses; governmental bodies; resellers; long distance
21 companies; and others. A local loop is required and used
22 by all of these users. Consequently, it has value to all of
23 these users, and all should pay a portion of customer
24 access.¹⁹
25
26

27 The New Hampshire Public Utilities Commission found:

28 The commission is well aware of the company's claim that
29 basic local exchange service has been and continues to be
30 subsidized by toll. In the past, the notion of various
31 services contributing to the support of basic exchange has
32 been reinforced by cost studies that have served to
33 demonstrate that the 'contribution' paid by customers of

¹⁷US West Communications, Inc., Docket No. RPU-94-1, Final Decision and Order, p. 13 (IUB Nov. 21, 1994).

¹⁸US West Communications, Inc. Docket No. UT-941464 et al, Fourth Supplemental Order at 39. (WUTC Oct. 1995)

¹⁹Page 19, Colorado Public Utilities Commission Order, I&S Docket No. 1720, dated March 20, 1987.

1 other services represents a disproportionately greater share
2 of the company's incurred costs. These studies have served
3 to mislead due to the company's decisions to assign NTS
4 costs to local exchange services despite the fact that both
5 interstate and state toll services are provided over local
6 NTS facilities. Without local exchange facilities there
7 would be no mechanism to connect interexchange services
8 to the majority of customers premises. Since clearly the
9 availability of the local network for toll use is a benefit to
10 interexchange carriers and all toll customers, the
11 Commission believes that assignment of NTS costs solely
12 to local exchange services is unreasonable.²⁰
13
14

15 Q. WHAT HAS NARUC STATED?

16 A. The general position of most of the state commissions is summarized by the
17 National Association of Regulatory Utility Commissioners' (NARUC) statement,
18 Interexchange carriers should pay a portion of the NTS loop cost because
19 they use the LECs loop to provide their services.²¹
20
21

22 Q. ARE THE LOOP AND PORT FACILITIES COSTS A LARGE PORTION OF
23 QWEST'S PROPOSED COST OF BASIC LOCAL EXCHANGE TELEPHONE
24 SERVICE?

25 A. Yes. The majority of Qwest's proposed cost of basic local exchange
26 telephone service in the Qwest-proposed AUSF analysis is the costs of the
27 loop and port facilities. For example, as shown on page 1 of Ms. Million's
28 Direct Testimony Schedule TKM-2, Qwest's claimed "Fully Allocated
29 TSLRIC" cost of 1FR service (flat rate basic local exchange telephone
30 service) in Zone 3 is ** **. Included in this amount is a cost of

²⁰Pages 39-40, New Hampshire Public Utilities Commission Order, Docket No. DR-89-010, dated March 11, 1991.

²¹Page 13, Initial Comments of the National Association of Regulatory Utility Commissioners, CC Docket No. 96-262, January 29, 1997.

1 ** ** for the loop facility and ** ** for the port facility.²²
2 Therefore, over ** ** of the costs that Qwest has included in its cost
3 of basic local exchange telephone service are the costs of the loop and port
4 facilities. Quite simply, over ** ** of the costs that Qwest has
5 included in its proposed cost of basic local exchange telephone service are
6 not properly included in the calculation of the Total Service Long Run
7 Incremental Cost of basic local exchange service. This means that over
8 ** ** of the costs that Qwest has included in its AUSF analysis are not
9 properly included in the AUSF analysis under the requirements of the
10 Code.

11
12 Qwest's own figures show that the TSLRIC of residential basic local
13 exchange service (1FR) is ** **, other than the loop
14 and port costs which Qwest improperly included.²³

15
16 **D. QWEST IMPROPERLY PROPOSES TO ADD ADDITIONAL**
17 **COSTS TO ITS CLAIMED TSLRIC OF BASIC LOCAL SERVICE**
18 **IN ITS AUSF ANALYSIS**

19
20 Q. WHAT COST DOES QWEST USE FOR BASIC LOCAL EXCHANGE
21 TELEPHONE SERVICE IN ITS PROPOSED AUSF CALCULATION?

²² This is shown on Schedule TMR-7, which is a copy of a page from Qwest's cost study that calculates Qwest's proposed "Fully Allocated Cost" of 1FR basic local exchange telephone service.

²³ See Schedule TMR-7, page 2 of 2, line 26.

1 A. On page 24 of her Direct Testimony, Ms. Million indicates that she used
2 "Qwest's fully allocated cost to calculate the amount of AUSF support
3 necessary." On page 11 of her Direct testimony, Ms. Million explains
4 that Qwest's "fully allocated costs" are the sum of three separate cost
5 components: (1) what Qwest claims is Direct cost/TSLRIC, (2) Network
6 Support costs and (3) common overhead costs. Ms. Million specifically
7 states:

8 Qwest's cost models all employ the same basic procedures to
9 arrive at monthly recurring Total Direct or TSLRIC, Network
10 Support and common overhead cost estimates that make up the
11 fully allocated costs.
12
13

14 As demonstrated in the quote above, Qwest has improperly proposed to
15 add additional "Network Support" and "common overhead" costs to its
16 claimed "TSLRIC" of basic local service, despite the fact that the Code
17 requires the cost to be the TSLRIC only.
18

19 Q. THE CODE REQUIRES THE TSLRIC TO BE USED IN THE AUSF
20 ANALYSIS. WHY IS QWEST PROPOSING TO USE ITS CLAIMED
21 "FULLY ALLOCATED COST", INSTEAD OF THE TSLRIC AS
22 REQUIRED UNDER THE CODE?

23 A. According to Qwest's witness Ms. Million, Qwest is using its claimed
24 "fully allocated cost" because Qwest wants to use a cost that includes not
25 only the TSLRIC, but also includes costs that are "shared among groups of

1 services" and includes "common overhead costs". On page 24, lines 10-

2 16 of her Direct testimony, Ms. Million states:

3 [T]he total cost to provide a retail service includes the direct cost
4 of the service, the costs that are shared among groups of services
5 and a contribution to the common overheads of the corporation. If
6 the AUSF support were calculated using an amount that recovered
7 less than the total cost to provide the service, then the shared costs
8 as well as the amount of contribution to common overheads from
9 basic local exchange service would be borne entirely by the lines
10 located in Zone 1.

11
12 On page 25, lines 6-7 of her Direct testimony, Ms. Million states:

13
14 Therefore, the appropriate cost to use in calculating the AUSF
15 support amount is Qwest's fully allocated cost.
16

17
18 Q. DOES QWEST ACKNOWLEDGE THE FACT THAT THE TSLRIC
19 DOES NOT INCLUDE SHARED COSTS OR COMMON OVERHEAD
20 COSTS?

21 A. Yes. Beginning on page 19, line 16, Ms. Million states:

22
23 In contrast, Qwest's TSLRIC results include only the direct costs
24 for each of the single services, whereas the costs which are shared
25 among services and the common costs result in what is referred to
26 as the fully allocated cost.
27

28
29 Q. QWEST IS PROPOSING TO USE WHAT IT CALLS THE "FULLY
30 ALLOCATED COST" OF BASIC LOCAL EXCHANGE TELEPHONE
31 SERVICE IN ITS AUSF ANALYSIS. IS QWEST'S PROPOSED COST
32 CONSISTENT WITH THE AUSF REQUIREMENTS OF THE CODE?

33 A. No. As already discussed, the Code requires that the "Total Service Long
34 Run Incremental Cost" be used in the AUSF analysis. Section R14-2-
35 1201(14) of the Code defines the Total Service Long Run Incremental

1 Cost as the total additional cost incurred by a telecommunications
2 company to produce the entire quantity of a service, given that the
3 telecommunications company already provides all of its other services.
4

5 Q. WHAT MAJOR PROBLEMS NEED TO BE ADDRESSED IN THE QWEST
6 PROPOSED AUSF ANALYSIS, IN ORDER FOR A REASONABLE
7 COMPARISON OF TOTAL INTRASTATE REVENUES TO TOTAL
8 INTRASTATE COSTS TO BE MADE?

9 A. Qwest's proposed USF analysis improperly includes 100% of the loop and port
10 facilities. Specifically, with reference to Qwest's proposed USF calculations
11 shown on Exhibit TKM-2, the figures shown in the "Cost" column of that Exhibit
12 include 100% of the unseparated loop facilities, and 100% of the cost of the
13 unseparated port facilities.²⁴ This poses two significant problems.

14
15 First of all, the FCC-State Joint Board Part 36 rules allocate 25% of the loop
16 facility costs to the interstate jurisdiction, and 75% to the intrastate jurisdiction.²⁵
17 Therefore, only 75% of the loop costs should even be considered in this intrastate
18 proceeding. In addition, the USF being addressed in this proceeding is the
19 intrastate USF. Therefore, it would be appropriate to determine Qwest's intrastate

²⁴ This can be determined by comparing the figures in the "cost" column on Exhibit TKM-02 to the "Fully Allocated TSLRIC" figures that appear on Qwest's residential basic exchange service cost study provided in response to Data Request WDA 2-21, Attachment B, filename "AZRCBXZ204", tab "WINPC3 Output (RES)."

²⁵ Part 36.154(c).

1 USF needs based upon the difference between Qwest's intrastate revenues and
2 intrastate costs.

3
4 Secondly, if all of the intrastate loop costs are going to be included in the
5 calculation, then all of the revenues from all of the intrastate services that share
6 the loop facility must also be included in the calculation. Despite the fact that
7 Qwest included 100% of the unseparated loop costs and 100% of the port facility
8 costs in its proposed AUSF analysis, Qwest limited the revenues to just basic
9 local exchange revenues and the interstate end user common line (EUCL)²⁶ in its
10 analysis.²⁷

11
12 Q. WHY WOULD IT BE REASONABLE TO INCLUDE THE INTRASTATE
13 COSTS OF THE LOOP AND PORT FACILITIES IN THE OVERALL
14 ANALYSIS, AS LONG AS THE TOTAL INTRASTATE REVENUES ARE
15 ALSO INCLUDED?

16 A. The loop and port facilities are shared by a whole family of services, including
17 toll, switched access, vertical features and basic local service. The revenues from
18 the whole family of services contribute to the costs of the loop and port facilities
19 that all of these services share and depend upon. As long as the "overall" analysis
20 includes the revenues from all of the services that share the loop and port
21 facilities, it is appropriate to include the costs of the loop and port facilities that all
22 of the services share.

²⁶ The EUCL is also commonly referred to as the Subscriber Line Charge (SLC).

²⁷ Million Direct Testimony Exhibit TKM-02.

1
2 In contrast, the Qwest proposed AUSF analysis includes all of the shared costs of
3 the loop and port facilities, but does not include all of the revenues from the
4 services that share and contribute to the cost of the loop and port facilities.

5 Therefore, Qwest's proposed analysis is a one-sided analysis that includes all of
6 the shared costs of the loop and port facilities, but excludes the revenues from
7 many of the services that contribute to the costs of the loop and port facilities.

8
9 **E. ADDITIONAL STAFF AUSF ANALYSIS, COMPARING ALL**
10 **INTRASTATE REVENUES TO ALL INTRASTATE COSTS**
11

12 Q. MS. MILLION STATES THAT QWEST WOULD LIKE TO CALCULATE ITS
13 AUSF FUNDING NEEDS USING A COST THAT INCLUDES "COSTS THAT
14 ARE SHARED AMONG GROUPS OF SERVICES" AND "COMMON
15 OVERHEAD" COSTS.²⁸ HAVE YOU PERFORMED AN ALTERNATIVE
16 ANALYSIS FOR AUSF FUNDING THAT USES TOTAL COSTS?

17 A. Yes. In a prior section, I discussed the fact that Qwest would not receive any
18 AUSF funding following the Code's AUSF rules, because Qwest's basic local
19 service benchmark rates are greatly in excess of Qwest's TSLRICs of providing
20 basic local service. I will refer to the prior analysis as the "Code Analysis". The
21 "Code Analysis" indicates that Qwest should not receive AUSF support, as
22 previously discussed.
23

²⁸ Million Direct, page 24, lines 10-16.

1 As a further check to see if Qwest has any reasonable basis for asking for AUSF
2 support, I also performed a "second analysis", which I will refer to as the "overall
3 analysis" of Qwest's intrastate services and intrastate costs. The "overall
4 analysis" includes residential and small business lines. The "overall analysis"
5 does not include large business services like Centrex.

6
7 I do believe that a reasonable AUSF calculation could be performed by comparing
8 the total intrastate revenues per line (including local, toll, switched access, vertical
9 services, etc.) to the total intrastate cost of providing telecommunications services
10 (including the costs of shared facilities).

11
12 Q. COULD YOU PLEASE DESCRIBE THE "OVERALL ANALYSIS" YOU
13 PERFORMED, IN GENERAL TERMS?

14 A. Yes. In my analysis, I compared the total intrastate revenues to the total intrastate
15 costs, separately by each Zone (i.e. Zone 1, Zone 2 and Zone 3). The analysis
16 includes both small business and residence services. The analysis does not
17 include large business services like Centrex. The AUSF support amounts are
18 calculated separately for each Zone by comparing the total intrastate revenues to
19 the total intrastate costs in each Zone.

20
21 Q. WHAT COSTS DID YOU INCLUDE IN YOUR ANALYSIS?

22 A. For the loop facility costs, I started with the Commission's approved UNE loop
23 rate for each Zone. I then removed 25% of the UNE loop rates to represent the

1 portion of the loop facility costs that are allocated to the interstate jurisdiction,
2 consistent with the FCC-State Joint Board Part 36 rules.²⁹

3
4 For the port facility costs, I started with the Commission's approved UNE port
5 rate. The UNE port rate is a statewide average rate. I then removed 17% of the
6 UNE port rate to represent the portion of the port facility costs that are allocated
7 to the interstate jurisdiction, based upon jurisdictional separations. The UNE
8 rates also include common costs, as Ms. Million indicates in her Direct
9 testimony.³⁰

10 I included costs for basic local usage, billing and collection and directory listings.

11
12 In addition, since this analysis includes the revenues for intrastate switched
13 access, intrastate toll and vertical features, I also included additional costs for
14 switched access, toll and vertical features costs. For purposes of the additional
15 costs of basic local usage, billing and collection, directory listings, intrastate
16 switched access, intrastate toll and vertical features, I used the "Fully Allocated
17 TSLRIC" costs provided by Qwest in this proceeding. As I have already
18 discussed, Qwest's proposed "fully allocated" costs include "Network Support"
19 and common overhead costs. For some services, the costs vary by zone. Each of
20 these costs are reflected as per-line costs in my analysis provided on Schedule
21 TMR-3.

22

²⁹Part 36.154(c).

³⁰ Million Direct testimony, page 24, line 21.

1 Q. WHAT REVENUES DID YOU USE IN YOUR ANALYSIS?

2 A. The revenues I used in my analysis include the basic local exchange service rate
3 (i.e. 1FR or 1FB rate)³¹, zone increment charges, vertical features revenues,
4 intrastate toll revenues and intrastate switched access revenues. The revenues for
5 some services vary by zone. Each of these revenues are reflected as per-line
6 revenues in my analysis provided on Schedule TMR-3.

7

8 Q. WHAT ARE THE RESULTS OF YOUR ANALYSIS THAT COMPARES
9 QWEST'S TOTAL INTRASTATE REVENUES TO TOTAL INTRASTATE
10 COSTS BY UNE ZONE?

11 A. The analysis shows that overall, Qwest's intrastate revenues ** **
12 Qwest's intrastate costs. Overall, statewide (i.e. Zones 1, 2 and 3), Qwest's total
13 intrastate revenues are ** **.
14 For Zones 2 and 3, Qwest's total intrastate revenues are **

15 ** The results are summarized on page 2 of
16 Schedule TMR-3.

17

18 Q. DOES QWEST RECEIVE REVENUES OTHER THAN FROM BASIC LOCAL
19 EXCHANGE SERVICE?

³¹ The Interstate End User Common Line (EUCL) charge was not included in my analysis. Only intrastate costs and intrastate revenues were included in the analysis.

³² This can be determined by comparing the figures in the "cost" column on Exhibit TKM-02 to the "Fully Allocated TSLRIC" figures that appear on Qwest's residential basic exchange service cost study provided in response to Data Request WDA 2-21, Attachment B, filename "AZRCBXZ204", tab "WINPC3 Output (RES)".

³³ Part 36.154(c).

³⁴ The EUCL is also commonly referred to as the Subscriber Line Charge (SLC).

³⁵ Million Direct Testimony Exhibit TKM-02.

1 A. Yes. The comparison below demonstrates that the residential basic exchange
2 service rate is by no means the only intrastate revenue that Qwest receives when it
3 provides telephone service to a residential customer. A comparison of the
4 residential intrastate revenues and residential intrastate costs is shown below for
5 Zone 2 and Zone 3:

6 **

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³⁶ This figure is calculated using Qwest's proposed "Fully Allocated TSLRIC" costs. This figure includes
** of billing and collections costs.

³⁷ The total Qwest proposed "Fully Allocated TSLRIC" billing and collections costs per line are **
per line, per month, as shown on Schedule TMR-7. However, I have included ** of billing and
collections costs in the 1FR cost shown above.

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**

The above figures are also shown on page 1 of Schedule TMR-3, attached hereto.

Quite simply, Qwest receives a lot more revenue than just the basic local exchange service rate when it provides telephone service to an end user. For example, as shown above and on page 1 of Schedule TMR-3, the residential basic local exchange service rate represents ** of the revenues that Qwest receives when it serves a residential customer in Zone 3.

Q. AT ONE TIME, DID THE FCC CONSIDER DETERMINING FEDERAL USF NEEDS BY COMPARING THE TOTAL COSTS TO TOTAL REVENUES?

³⁸This figure is calculated using Qwest's proposed "Fully Allocated TSLRIC" costs. This figure includes ** of billing and collections costs.
³⁹ The total billing and collections costs per line are ** per line, per month, as shown on Schedule TMR-3. However, I have included ** of billing and collections costs in the IFR cost shown above.

1 A. Yes. At one time, the FCC did consider determining Federal USF needs by
2 comparing a carrier's costs to a "revenue benchmark".⁴⁰ The "revenue
3 benchmark" that the FCC was going to use did not just include basic local service
4 revenues. The FCC's benchmark also included the revenues for switched access
5 services and vertical services. Both the FCC-State Joint Board⁴¹ and the FCC
6 properly concluded that since the cost they calculated included the shared loop
7 facilities costs, the revenue benchmark should include the revenues from the
8 family of services that share the loop facilities:

9 As the Joint Board recommended, the revenue benchmark
10 should take account not only of the retail price currently
11 charged for local service, but also of other revenues the
12 carrier receives as a result of providing service, including
13 vertical service revenue and interstate and intrastate access
14 revenues. Failure to include all revenues received by the
15 carrier could result in substantial overpayment to the
16 carrier.⁴²

17 We include revenues from discretionary services in the
18 benchmark for additional reasons. ... Revenues from
19 services in addition to the supported services should, and
20 do, contribute to the joint and common costs they share
21 with the supported services.⁴³
22
23

24 The FCC never did implement the Federal USF calculation that compared cost to
25 revenues, but when it was preparing to use that standard, the FCC properly
26 recognized the concept that this cost had to be compared to revenues from the
27 family of services which shared the loop (including switched access service

⁴⁰ Currently, the FCC uses its Proxy Model cost results for a company to compare to other costs, not rates. Under the FCC's current USF, a carriers' disbursements from the Federal USF depend on the carriers' costs relative to the national average cost of serving customers. See §36.631(c) of the FCC's Rules.

⁴¹ The FCC-State Joint Board is made up of both state commissioners and FCC commissioners.

⁴² Report and Order in CC Docket No. 96-45, FCC 97-157, Released May 8, 1997, ¶200.

⁴³ Report and Order in CC Docket No. 96-45, FCC 97-157, Released May 8, 1997, ¶261.

1 revenues and vertical services revenues), not compared to just basic exchange
2 revenues.

3
4 Q. DOES QWEST CURRENTLY RECEIVE ANY FEDERAL HIGH COST LOOP
5 SUPPORT IN ARIZONA?

6 A. No. Under the Federal high cost loop system currently in place, Qwest does not
7 receive any Federal high cost loop support in Arizona.⁴⁴

8
9 Q. WHAT DO YOU CONCLUDE?

10 A. I conclude that Qwest's request for the Zone 2 and Zone 3 AUSF support should
11 not be granted. The "Code Analysis" shows that Qwest would not receive any
12 AUSF funding following the Code's AUSF rules, because Qwest's basic local
13 service benchmark rates are greatly in excess of Qwest's TSLRICs of providing
14 basic local service.
15
16 Qwest's proposed AUSF analysis improperly includes the costs of the shared loop
17 and port facilities. Over ** ** of the costs that Qwest has included in its
18 "Fully Allocated Cost" of basic local exchange telephone service are not properly
19 included in the calculation of the Total Service Long Run Incremental Cost of

⁴⁴ Universal Service Administrative Company, Federal Universal Service Support Mechanisms Fund Size, Projections for the First Quarter 2005, Appendix HC01, November 2, 2004.

⁴⁵ Part 36.154(c).

⁴⁶ Million Direct testimony, page 24, line 21.

⁴⁷ The Interstate End User Common Line (EUCL) charge was not included in my analysis. Only intrastate costs and intrastate revenues were included in the analysis.

1 basic local exchange service, and are therefore not properly included in the AUSF
2 analysis under the requirements of the Code.

3
4 My second, or "overall analysis" indicates that Qwest does not need AUSF
5 support to cover its intrastate costs in Zone 2 and Zone 3. **

6 ** in
7 Zones 2 and 3. For these reasons, I recommend that Qwest's request for AUSF
8 funding be denied.

9
10 **III. RATE DESIGN**

11
12 **A. ZONE INCREMENT CHARGES**

13
14
15 Q. ON PAGE 86 OF HIS DIRECT TESTIMONY, MR. TEITZEL PROPOSES TO
16 ELIMINATE THE EXCHANGE ZONE INCREMENT 1 AND 2 RATES,
17 WHICH ARE PRICED AT \$1.00 AND \$3.00 RESPECTIVELY. DO YOU
18 SUPPORT MR. TEITZEL'S PROPOSAL?

19 A. No. I do not support Mr. Teitzel's proposal.

20
21 The purpose of the zone increment charges is to recover costs for serving areas
22 that have higher than average costs. Mr. Teitzel makes this point clear on page 87
23 of his Direct Testimony, when he provides the following Q & A:

24
25 Q. HAVE LOCAL SERVICE ZONE INCREMENTS BEEN A MEANS FOR
26 QWEST TO RECOVER COSTS FOR SERVING AREAS THAT ARE, ON

1 AVERAGE, MORE COSTLY TO SERVE THAN OTHER AREAS OF THE
2 STATE?

3
4 A. Yes. The Zone 2 increments have been assessed to customers that are in the
5 highest cost areas of Qwest's service territory, while the Zone 1 increments are
6 applicable to areas that have local exchange costs that are slightly higher than
7 average.
8
9

10 Therefore, the current Zone increment charges are properly serving the purpose of
11 defraying at least part of the costs in high cost areas.
12

13 **B. SWITCHED ACCESS**
14

15 Q. ON PAGE 14, LINE 14 OF HIS DIRECT TESTIMONY, QWEST'S WITNESS
16 MR. MCINTYRE DISCUSSES A \$5 MILLION INTRASTATE SWITCHED
17 ACCESS REVENUE REDUCTION. HAS THIS REDUCTION BEEN
18 RESCINDED BY THE COMMISSION?

19 A. Yes. In Decision 67047, the Commission reversed the \$5 million reduction.⁴⁸
20

21 Q. ON PAGE 15 OF HIS DIRECT TESTIMONY, MR. MCINTYRE STATES
22 THAT IN THE RECENT PAST, QWEST HAS SUPPORTED LOWERING
23 INTRASTATE SWITCHED ACCESS RATES TO "INTERSTATE LEVELS".
24 WHAT IS THE MAJOR REASON WHY QWEST'S INTERSTATE
25 SWITCHED ACCESS RATES ARE LESS THAN QWEST'S INTRASTATE
26 SWITCHED ACCESS RATES?

27 A. Qwest's interstate switched access charges are priced artificially low because
28 those interstate rates are supported by the interstate End User Common Line

⁴⁸ Decision No. 67047, Dated June 18, 2004, page 7, line 3.

1 (EUCL) charge that appears on local end-user customers' bills. For residential
2 customers, the interstate EUCL is currently \$6.50 per line per month for Qwest in
3 Arizona. Therefore, the interstate switched access charges are artificially
4 suppressed rates, that are supported in part by per-line charges paid for by end-
5 user customers.

6
7 Q. HAS THE ARIZONA COMMISSION PROPERLY RECOGNIZED THAT
8 THERE ARE PUBLIC POLICY CONCERNS THAT IMPACT THE
9 COMMISSIONS ABILITY TO SET QWEST'S INTRASTATE SWITCHED
10 ACCESS RATES AT "PARITY" WITH THE QWEST INTERSTATE
11 SWITCHED ACCESS RATES?

12 A. Yes. In its Order in Qwest's last rate case, Docket No. T-01051B-99-0105 et. al.,
13 the Commission stated:

14 Although the Settlement Agreement professes a goal of reaching parity
15 between Qwest's intrastate and interstate switched access charges, it does
16 not, at least in its initial three year term reach that goal. It does, however,
17 take a step forward. While we agree that achieving parity between
18 intrastate and interstate switched access rates is a laudable goal, there are
19 many other public policy issues that impact our ability to reach that goal,
20 such as the desirability of imposing an End User Common Line charge.
21 Such decision concerning the structure of toll service charges should occur
22 in a generic docket as it affects more than just Qwest.⁴⁹
23

24 Q. CAN YOU PROVIDE A COMPARISON OF QWEST'S CURRENT
25 INTRASTATE SWITCHED ACCESS RATES, TO QWEST'S INTERSTATE
26 SWITCHED ACCESS RATES INCLUDING THE EUCL CHARGE?

⁴⁹Commission Opinion and Order in Docket No. T-01051B-99-0105 et. al, page 12, lines 15-21, October 20, 2000.

1 A. Yes. In discovery, Qwest provided its current average revenue per minute for
2 intrastate switched access services, which is ** ** per minute.⁵⁰

3

4 The average interstate switched access rate, including EUCL, is ** **. ⁵¹

5

6 A summary of the results of this analysis is shown below:

7 **

8

9

10

11

12

13

14 **

15

16 The calculation of the interstate switched access rates shown above is shown on

17 Schedule TMR-4, attached hereto.

18

19 Q. WHAT DO YOU CONCLUDE FROM THIS ANALYSIS?

20 A. The analysis I have performed demonstrates that Qwest's current intrastate
21 switched access charges are approximately ** ** higher than the interstate
22 switched access rates (when the interstate EUCL charges are included in the
23 calculation of the interstate switched access rates).⁵³

24

⁵⁰ In response to other discovery, Qwest provided what its intrastate switched access revenues would be if its switched access rates were set equal to (i.e. at "parity") with Qwest's interstate switched access rates (not including the interstate EUCL charge). Those revenues equal ** ** per minute. I then calculated the interstate EUCL charge on a per-minute-of-use basis, by dividing the average monthly interstate EUCL rate by the total monthly interstate switched access minutes of use. On a per-minute-of-use basis, the interstate EUCL charge is ** ** per minute.

⁵¹ **

⁵² Qwest response to Data Request WDA 6-2.

⁵³ **

**

1 Q. HAVE YOU PERFORMED ANOTHER ANALYSIS TO HELP ASSESS THE
2 LEVEL OF QWEST'S CURRENT INTRASTATE SWITCHED ACCESS
3 RATES?

4 A. Yes. In a separate analysis, I compared the current charges for Qwest's **
5 ** intrastate switched access rates in Arizona, to the average
6 intrastate switched access charges of Qwest for those same services across
7 Qwest's 14 state service territory.⁵⁴ This analysis demonstrates that for the
8 ** ** intrastate switched access rates, Qwest's rates in
9 Arizona are approximately 28% higher than the average rates of Qwest across its
10 14 state service territory. A summary of this analysis is shown below:

11 QWEST'S RATES FOR THE **

**

12 INTRASTATE SWITCHED ACCESS RATES

	<u>Arizona</u>	<u>Qwest 14 State Average⁵⁵</u>
Carrier Common Line Access Service (CCL)		
Originating	\$0.006244	\$0.009255
Terminating	\$0.014153	\$0.012329
Local Switching		
Originating	\$0.017300	\$0.011177
Terminating	\$0.017300	\$0.010197
Tandem Switching	<u>\$0.005000</u>	<u>\$0.003980</u>
Total-Originating and Terminating	\$0.059997 ⁵⁶	\$0.0469380
Approx. Major Ave.per Access Minute (=Total/2)	\$0.029998	\$0.023469
Percent- Arizona/Average	128%	

⁵⁴ Qwest's ** ** intrastate switched access rates in Arizona are local switching, Carrier Common Line Access Service (CCL), and tandem switching, as shown on page 1 of Schedule TMR-5.

⁵⁵ The Carrier Common Line Access Service rates exclude the state of Montana. Montana has a flat-rated CCL that is split among each IXC based on each IXC's relative market share measured in relative share of minutes of use.

⁵⁶ The average revenue per minute for Qwest's intrastate switched access in Arizona is ** **. This figure includes access charges in addition to the major charges included in the above analysis. (See Qwest's response to Data Request WDA 6-2).

1
2 The calculation of the above figures is shown on page 2 of Schedule TMR-5,
3 attached hereto.

4
5 Q. WHAT DO YOU RECOMMEND FOR INTRASTATE SWITCHED ACCESS
6 SERVICES?

7 A. I recommend that Qwest's intrastate switched access rates be reduced by 25%.
8 The intrastate switched access rates that I propose this reduction for are shown on
9 page 1 of Schedule TMR-5. This reduction will effectively bring Qwest to
10 "parity" with the Qwest interstate switched access rates (when the interstate
11 EUCL charges are factored into the calculation of the interstate switched access
12 rates), and will bring the Arizona intrastate switched access rates in line with the
13 average intrastate switched access charges of Qwest across its 14 state service
14 territory. The Staff's proposed intrastate switched access rates exceed Qwest's
15 proposed TSLRIC costs for each of the switched access services shown on page 2
16 of Ms. Million's Direct testimony schedule TKM-1.⁵⁷

17
18 Q. WHAT IS THE REVENUE IMPACT OF YOUR SWITCHED ACCESS
19 PROPOSAL?

⁵⁷ However, not every switched access rate element is included on Ms. Million's schedule TKM-1. While I recommend that each of Qwest's intrastate switched access rates shown on page 1 of Schedule TMR-5 be reduced by 25%, I do not intend that any rate be below TSLRIC. I reserve the right to modify my proposal in the event that Qwest demonstrates that any of my proposed rates would result in a rate(s) below the TSLRIC cost to provide that service(s).